

New China Life (601336 CH)

Lackluster FYRP growth likely weighs on NBV

NCI announced 9M19 results on 30 Oct 2019. Gross written premiums increased 7.9% YoY to RMB 107.9bn whereas net profit increased 68.8% YoY to RMB13bn, or 44.3% YoY after deducting non-recurring benefits from tax policy adjustment. Total investment yield remained largely stable at 4.7% on annualized basis.

- Result highlights. 1) Net profit beat.** However, when compared with peers, NCI's net profit surge after deducting one-off items was primarily attributable to underwriting cost and G&A cost reduction (likely resulting from negative FYRP growth, agent headcount shrinkage, and etc.), rather than to rapid increase in investment income. **2) Stable, albeit not outstanding investment performance.** Investment income, including interest & dividend income, realized gains as well as fair value gains, rose 3.0% in 9M19 and 4.5% in 3Q19. Investment assets advanced 12.2% YoY/1.5% QoQ to RMB 785bn as of 30 Sep 2019.
- However, lackluster FYRP growth** in both individual and bancassurance channel may cloud NBV growth. Overall FYRP decreased 23.5% YoY in 3Q19, reversing +1.1% growth in 1H19 (18.2%/-17.6% in 1Q/2Q). Although the Company did not announce NBV figures in quarterly report, we think disappointing FYRP growth and a relatively high base in 2H18 will weigh on 2H19 NBV growth. We therefore revise down 2019 NBV forecast by 2.8% to RMB 11.6bn, representing YoY decrease of 5%.
- We see more challenges than positive catalysts in 4Q19.** Although we acknowledge that the upgrade of critical illness products may expand underwriting business of the Company, we see more challenges in 4Q19 particularly on the underwriting front. FYRP growth has not turned positive yet and NBV margin pressure also exists. We think management reshuffle at the beginning of the year has to some extent cramped business development of NCI. The Company may need extra amount of time to revisit its growth strategy and execution roadmap.
- Revise down TP to RMB 53.51.** We rolled over valuation basis to FY20E. However, due to less optimistic NBV outlook, we trimmed NBV and EV forecast. Accordingly, new TP is RMB53.51 based on 40% premium to H-share TP. The Company's A-share is now trading at 0.73x FY20E P/EV. Valuation is fair. Maintain HOLD.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	109,294	122,286	132,070	141,800	151,397
YoY Growth (%)	-2.9	11.9	8.0	7.4	6.8
Total income (RMB mn)	143,082	151,964	162,852	176,550	187,720
Net profit (RMB mn)	5,383	7,922	13,057	13,955	14,721
EPS (RMB)	1.73	2.54	4.19	4.47	4.72
EPS CHG (%)	8.9	47.2	64.8	6.9	5.5
P/B (x)	2.39	2.32	1.88	1.65	1.44
P/EV (x)	0.99	0.88	0.78	0.73	0.69
Yield (%)	1.07	1.58	2.60	2.78	2.93
RoEV (%)	19.7	13.9	13.7	8.9	7.6

Source: Company data, CMBIS estimates

HOLD (Maintain)

Target Price RMB53.51
 (Previous TP RMB55.22)
Up/Downside +8.4%
Current Price RMB49.34

China Insurance Sector

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Stock Data

Mkt Cap (RMB mn)	132,076
Avg 3 mths t/o (RMB mn)	778.27
52w High/Low (RMB)	64.99/ 39.01
Total Issued Shares (mn)	1,034 (H)
	2,085 (A)

Source: Bloomberg

Shareholding Structure

Central Huijin Investment	31.34%
China Baowu Steel Group	12.09%

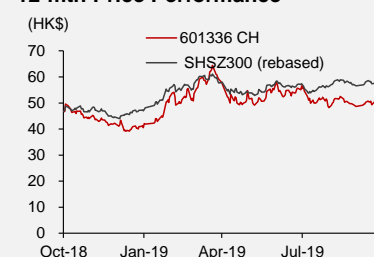
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.4%	-0.6%
3-mth	-12.8%	-13.3%
6-mth	-14.1%	-13.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Reports

- "Margin pressure and transition uncertainties" – 2 Jul 2019
- "Strong FYRP growth in 1Q19" – 29 Apr 2019
- "NBV margin expansion driven by product optimization" – 22 Mar 2019
- "Investor day takeaway" – 7 Dec 2018

Figure 1: 3Q19 results summary

(RMB mn)						
P&L	9M18	9M19	YoY	3Q18	3Q19	YoY
Gross written premiums	100,008	107,912	7.9%	32,138	33,897	5.5%
Net premiums earned	97,601	105,219	7.8%	31,316	33,160	5.9%
Investment income	24,373	25,109	3.0%	8,066	8,425	4.5%
Total income	122,633	130,998	6.8%	39,666	41,906	5.6%
Insurance benefits and claim expenses	(88,776)	(95,009)	7.0%	(28,857)	(31,584)	9.5%
Underwriting costs	(13,077)	(13,026)	-0.4%	(4,421)	(4,083)	-7.6%
Admin expenses	(8,276)	(8,405)	1.6%	(2,976)	(2,893)	-2.8%
Total expenses	(112,524)	(118,897)	5.7%	(37,084)	(39,867)	7.5%
Associates and JVs	136	220	61.8%	(85)	42	-149.4%
Pre-tax profit	10,245	12,321	20.3%	2,497	2,429	-2.7%
Income tax	(2,542)	683	-126.9%	(594)	29	-104.9%
Less: Minority interests	(1)	(1)	0.0%	-	-	n/a
Net profit	7,702	13,003	68.8%	1,903	2,458	29.2%
B/S	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Investment assets	699,826	784,969	12.2%	773,231	784,969	1.5%
Total assets	753,256	822,083	9.1%	808,124	822,083	1.7%
Insurance contracts liabilities	589,825	639,198	8.4%	622,998	639,198	2.6%
Total liabilities	686,636	742,275	8.1%	731,524	742,275	1.5%
Equity attributable to shareholders	66,611	79,798	19.8%	76,590	79,798	4.2%
Key indicators	9M18	9M19	YoY	3Q18	3Q19	YoY
FYRP (RMB mn)	17,192	15,997	-7.0%	5,622	4,299	-23.5%
Key indicators (end of period)	3Q18	3Q19	YoY	2Q19	3Q19	QoQ
Core solvency margin ratio	268.3%	287.5%	+ 19.2 ppt	284.9%	287.5%	+2.6 ppt
Comprehensive solvency ratio	273.3%	288.4%	+15.1 ppt	289.5%	288.4%	-1.1 ppt

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	109,356	122,341	132,151	141,884	151,484
Net premiums earned	107,990	120,002	129,008	139,146	148,599
Investment income	34,380	31,185	33,012	36,474	38,138
Other operating income	712	777	831	930	983
Total income	143,082	151,964	162,852	176,550	187,720
Insurance claims and reserves	(102,481)	(109,842)	(118,227)	(121,449)	(128,466)
Commissions expenses	(15,908)	(16,711)	(16,126)	(18,089)	(20,061)
Other operating expenses	(15,945)	(14,202)	(14,855)	(18,609)	(19,836)
Total expenses	(134,334)	(140,755)	(149,209)	(158,147)	(168,363)
Associates and JVs	296	404	392	396	400
Finance cost	(1,714)	(1,103)	(963)	(906)	(882)
Pre-tax profit	7,330	10,510	13,072	17,893	18,874
Income tax	(1,946)	(2,587)	(14)	(3,936)	(4,152)
Less: Minority interests	1	1	1	1	1
Net profit	5,383	7,922	13,057	13,955	14,721

Key ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Growth (%)					
GWP growth	(2.9)	11.9	8.0	7.4	6.8
Total income growth	(1.2)	6.2	7.2	8.4	6.3
Net profit growth	8.9	47.2	64.8	6.9	5.5
EV growth	18.6	12.8	12.3	6.8	5.5
Net investment yield	5.1	5.0	4.9	4.9	4.8
Total investment yield	5.2	4.6	4.6	4.6	4.5
Investment assets growth	1.3	1.7	14.5	7.2	5.3
Underwriting (%)					
Agent FYRP growth	19.0	(25.0)	(2.5)	2.0	2.0
Bancassurance FYRP growth	13.0	(26.9)	12.0	8.0	8.0
Agent FYRP/FYRP	76.8	77.3	74.7	73.6	72.5
Renewal growth	19.4	23.8	8.9	7.7	7.1
Renewal/overall GWP	72.2	79.9	80.5	80.7	80.9
NBV (RMB mn)	12,063	12,210	11,603	12,291	12,896
NBV growth	15.4	1.2	(5.0)	5.9	4.9
NBV margin (APE)	40.5	50.8	46.1	45.9	45.6

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	688,315	699,826	796,653	859,585	905,563
other assets	21,960	34,103	34,966	37,982	40,919
Total assets	710,275	733,929	831,619	897,566	946,483
Insurance liabilities	575,277	594,620	636,795	677,698	721,445
Other liabilities	71,275	73,713	113,940	127,332	119,372
Total liabilities	646,552	668,333	750,736	805,030	840,817
Shareholders' equity	63,715	65,587	80,877	92,529	105,659
Minority interest	8	9	7	7	7
Total equity	63,723	65,596	80,884	92,536	105,666

Returns (%)

RoEV	19.7	13.9	13.7	8.9	7.6
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Solvency (%)

Core solvency ratio	275.9	269.6	288.3	289.5	288.4
Comprehensive solvency ratio	281.7	274.5	288.3	289.5	288.4

Per share

EPS (RMB)	1.73	2.54	4.19	4.47	4.72
DPS (RMB)	0.52	0.77	1.27	1.36	1.43
EVPS (RMB)	49.20	55.51	62.33	66.58	70.27
BVPS (RMB)	20.42	21.02	25.93	29.66	33.87

Source: Company data, CMBIS estimates

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